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UNCLAS SECTION 01 OF 03 TEGUCIGALPA 002302

SIPDIS

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STATE FOR WHA/CEN AND EB/TRA

E.O. 12958: N/A

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SUBJECT: INTERAIRPORTS AT AGE THREE: A NEW CONTRACT, A NEW START?

1. (SBU) Summary: InterAirports, the international consortium that operates Honduras' four international airports, has recently renegotiated its contract with the GOH. The new contract would resolve many of the issues that have troubled InterAirports in its three years of operation, specifically the matter of a financing guarantee to allow InterAirports to continue work on renovations. The renegotiated contract has been heavily criticized in the press as offering too much to InterAirports and not enough to the GOH, but GOH and Congressional leaders believe the chances of passage are good, indicating there were only a few points of concern. End Summary.

2. (SBU) EconOffs have held several meetings in recent weeks and months to discuss the ongoing negotiations between InterAirports and the GOH. From InterAirports EconOffs have met with the General Manager Elida Howell, a Honduran, and Carlos Vidal Ferreira, the leader of the recent negotiations, a Portuguese national who works for Soares de Costa, the largest partner in the consortium. From the GOH, EconOff met with Vice Minister for Transportation Eduardo Pavon, and Ambassador and EconCouns discussed the issue briefly with the President of Congress at a mid-September luncheon. EconOff has also received a copy of the renegotiated InterAirports contract that is currently awaiting approval by Congress.

Background

3. (SBU) In October 2000, operation of Honduras' four international airports (in Tegucigalpa, San Pedro Sula, La Ceiba and Roatan) was granted to an international consortium called InterAirports. The consortium is made up of Soares de Costa S.A. (of Portugal, with roughly 25 percent ownership), Calmaquip Engineering Corporation (USA, 22 percent), SERLIPSA Swissport S.A. (Peru, 20 percent), Pacific Architects and Engineers, Inc. (USA, 18 percent), San Francisco Airports of Honduras (USA/Honduras, 10 percent) and the local businessman Raul Torres Lazo (Honduras, 5 percent). Currently American businesses comprise just over 50 percent ownership of the consortium, though this will likely fall to 40 percent in the months ahead (see paragraph 11 below). While InterAirports is responsible for maintenance and operations at the airports, safety and security remain the responsibility of the Director General of Civil Aviation (DGAC), currently under the leadership of Cesar Vasquez (see septel for an overview of airport security issues in Honduras).

4. (SBU) Initial problems faced by InterAirports included a sharp increase in cargo and handling fees that was not well explained to the public, which led to a public backlash and a court case. In August 2001 the fees were lowered and InterAirports secured a public declaration from leading private sector figures that the new rates were fair and reasonable, but the damage in the court of public opinion was already done. Comment: InterAirports claims the government had raised the fees previously but left the blame to the consortium. End comment.

5. (SBU) A further dispute then developed over the renovations to the four airports that InterAirports had agreed to undertake. As explained by InterAirports President Vidal Ferreira, these renovations were to be funded by three sources: equity from InterAirports' shareholders, cashflow from their operations, and a bank loan, which was to be obtained using the airports concession as collateral. However the GOH refused to allow the concession to be used as collateral (despite a provision in the contract which, according to InterAirports, required the government to authorize the financial guarantee). While the issue remained unresolved, InterAirports was prevented from obtaining financing and could not proceed with renovations. As project due dates specified in the concession contract passed without progress on the renovations, InterAirports found itself subject to fines of USD 20,000 per day, which began accruing on May 16th. InterAirports, in the meantime, began preparations for submitting the dispute to international arbitration in London.

6. (SBU) InterAirports and the GOH subsequently agreed to a

renegotiation of the concession contract in order to address the financial guarantee, to rebalance the responsibilities and income attributed to the consortium, and to allow the lowering of some fees in order to increase competitiveness. These negotiations began in June 2003 and ended in late July, though the fact that negotiations were taking place was not made public until August. The GOH was represented in these negotiations by Minister of Tourism Thierry Pierrefeu, who together with InterAirports General Manager Howell made a presentation to Congress in late August on the benefits of the new contract. A vote is expected in the next few weeks.

What's in the new contract

17. (SBU) The new contract resolves the current dispute by explicitly stating that InterAirports may use its concession as a guarantee to receive financing for the renovation projects, something that was not stated in sufficiently clear terms in the original contract. While the new contract does not address the punitive fines directly, it effectively eliminates the issue by rescheduling the due dates for the projects that InterAirports is contracted to undertake. (According to the new schedule renovations to the airports in San Pedro Sula, La Ceiba and Roatan would be completed in 2004, and to Toncontin International Airport in Tegucigalpa by July 2005.)

18. (SBU) The new contract also reduces, by an average of 45 percent, the landing and parking fees charged, a change which the GOH hopes will make Honduran airports more competitive in the region and help the country attract more air traffic. (International landing fees are reduced from USD 4 to USD 2.40 per ton, international parking fees are reduced from USD 1 to US 40 cents per ton per hour, with somewhat smaller reductions in fees for national flights.) In return, however, InterAirports is allowed to keep a larger share of its revenue: the percentage paid to the GOH is reduced from 39.7 percent to 34.4 percent.

19. (SBU) Cargo fees are unchanged from the level that was negotiated with the private sector in 2001. While these fees continue to receive criticism, Howell stressed in her presentation before Congress that they are lower than the fees charged in either El Salvador or Costa Rica, the other two Central American countries in which the airports are privately owned.

Goodbye San Francisco

10. (SBU) Another aspect of the new contract which has received significant attention is the requirement that a new partner take the place of San Francisco Airports of Honduras (a.k.a. SFO Honduras) within two months of the contract's approval. The involvement of SFO Honduras has been controversial from the start. The fact that SFO Honduras is a legally separate entity from the San Francisco International Airport was interpreted in the Honduran press as some kind of trick, in which the GOH had been fooled into believing that InterAirports included members with experience and expertise in operating a major international airport, when in fact this was not the case. Some critics of InterAirports continue to argue that the granting of the concession to InterAirports in 2000 was not legally valid, since SFO Honduras does not qualify as an "operator" as defined by the terms of the concession.

11. (SBU) In reality, Howell said that InterAirports has had no problems working with SFO Honduras, and the legal separation between SFO Honduras and the San Francisco International Airport has been misinterpreted and is typical in the industry. (The company most likely to take San Francisco's place in the consortium, Vancouver Airport Services, is itself legally separate from the Vancouver International Airport Authority.) Furthermore, San Francisco had already decided to pull out of InterAirports, for their own reasons, before the contract renegotiations began in June. Thus, InterAirports was able to offer the replacement of SFO Honduras as a free bargaining chip in the negotiations, presenting as a concession something that was going to happen anyway.

Perceptions of the Public and the Press

12. (SBU) InterAirports still must contend with consistently negative portrayal in the press, fueled by the former operators, some members of the business community, and the consortium's Honduran "partner". The press has created the public perception that the company has cheated the government and the people of Honduras. Media reaction to the new contract has focused on the fact that InterAirports will not

have to pay the fines for falling behind schedule on renovations, and on the reduction of the share of revenues that the GOH will receive. The press does not mention the GOH's failings to meet its contractual obligations. Headlines such as "They're raising fees, and they won't even be punished!" are unfortunately typical - misstating the facts (since the new contract doesn't raise fees) while indignantly criticizing the government for being too soft on a company that ought to be penalized. In August, a newspaper cartoon portrayed InterAirports as a fat, laughing businessman, riding on the back of a departing plane, carrying a suitcase bulging with U.S. dollars.

The New Contract and Congress

13. (SBU) In a meeting on September 22nd, Vice Minister of Transportation Eduardo Pavon explained that the vote in Congress is being delayed so that members of Congress can prepare for the negative public reaction that approval of the contract will generate. Pavon said that Congressmen need some time to develop justifications and explanations of the contract so that they will be able to answer "to the people". However in private meetings, according to Pavon, leaders of both major parties (National and Liberal) and several minor parties have expressed their support for the new contract, and he expressed confidence that it will eventually be approved.

Comment

14. (SBU) The GOH and InterAirports appear to have successfully stepped back from the brink. The assignment of Minister of Tourism Pierrefeu to repair the relationship and sell Congress on the benefits of a revised contract was advantageous. It is finally looking as if a resolution is in sight, although, in typical Honduran fashion, the contract's progress through Congress is slow. The Embassy remains convinced that success in this concession is vital to pave the way for privatization in other important sectors. End comment.
Palmer